Petition No.63/2010

MADHYA PRADESH ELECTRICITY REGULATIORY COMMISSION, BHOPAL

Sub : **In the matter of approval of Feeder Separation scheme under Regulation 10.3 of MPERC Regulation, 2004 (The Condition of Distribution License for Distribution Licensee).**

O R D E R

(Date of hearing 04.01.2011)
Date of order 12.01.2011

MP Madhya Kshetra Vidyut Vitaran Co. Ltd, Bhopal (Central Discom) - Petitioner

Shri A.K. Jatav, GM (FS) and Shri Akshay Khare, DGM (FS) appeared on behalf of petitioner.

2. The M.P. Madhya Kshetra V.V. Co. Ltd., Bhopal vide letter dated 28.08.2010 filed the petition for obtaining approval of the Feeder Separation Scheme in accordance with provision 10.3 of the MPERC (The Condition of Distribution License for Distribution Licensee), Regulations, 2004. The Petitioner prayed approval to a total outlay of Rs.1172.43 Crs. consisting of phase-I and phase-II schemes amounting to Rs.454.55 Crs. and Rs.717.88 Crs. respectively for feeder bifurcation schemes.

3. The Commission, vide order dated 30.11.2010 observed in the matter that T&D loss reduction proposed by the petitioner varies between 2% to 5% for districts in the project area irrespective of the fact that some of districts have very high loss levels in the range of 40-60% and thus such meager reduction of loss levels in those districts after implementing the scheme and incurring substantial expenditure will not lead to financially justifiable results. It needs to be demonstrated that adverse impact of debt servicing of this size on tariff would be substantially mitigated by its financial benefits. The Commission observed that district-wise detailed study for assessment of loss reduction before and after implementation of the project has not been carried out by the petitioner and in the absence of such study it will be not be possible to measure the benefits that may accrue from the scheme after its implementation. The Commission further observed that the petitioner's submission does not contain comprehensive cost benefit analysis and also likely improvement in performance parameters such as voltage profile, etc.

Sub : In the matter of approval of Feeder Separation scheme under Regulation 10.3 of MPERC Regulation, 2004 (The Condition of Distribution License for Distribution Licensee).

4. During the course of hearing, it was submitted by the petitioner that after implementation of the scheme, technical losses are expected to be reduced to extent of around 2 to 5% depending upon the length of feeders in rural areas in respective districts. However, regarding the Commission's observations in respect of those districts where loss levels have been in the range of 40 to 60%, it will be reduced to 35 to 45% after implementation of the scheme. It was submitted by the petitioner that losses comprise of technical and commercial losses wherein theft of electricity is included. It was further submitted by the petitioner that reduction in total loss levels (technical & commercial) to the extent of 5 to 20% is envisaged due to conversion of LT lines into AB cables / High Voltage Distribution System (HVDS) and un-metered connections to metered connections thereby increasing sale of electricity. Further, in respect of cost benefit analysis, it is stated that annual financial benefit to the extent of Rs.369.99 Crs. has been envisaged after taking into consideration energy saved on account of said loss reduction and regularization of illegal connections in villages after implementation of HVDS and AB LT cabling and reduction in DTR failure. It was stated that due to feeder bifurcation between domestic and agriculture connections, consumer services in respect of quality of supply are expected to improve. The petitioner has submitted that payback period would be around 3.17 years.

5. While the Commission's view is to encourage investment in the distribution system for overall improvement of the operational efficiencies of the distribution network, the impact of such investment on the tariff also needs to be evaluated. It needs to be ensured by the Company that the impact of debt service of this size on the tariff would have to be substantially mitigated by its financial benefits. The loss reduction details submitted by the Company do not relate to benchmark norms used for tariff setting and cannot be accepted. As such the contended financial gains will have no positive impact on tariff. The Commission is of the view that the burden of servicing the cost of this project in the tariff has not only to be off-set by the financial benefits resulting out of the implementation of this Scheme, but should result into greater overall improvement in the performance.

6. In view of the foregoing, the Commission accords in principle approval to the proposed investment by the M.P. Madhya Kshetra V.V. Co. Ltd., Bhopal for carrying out the work of Feeder Separation subject to the condition that admissibility of such investment in ARR would be subject to check of its prudence. In view of the observations in the foregoing paras, the servicing of debt, depreciation, return on equity on the said investment would be permissible in ARR to such extent only as is considered prudent by the Commission, does not adversely affect the interest of consumers and only after such assets are put to use i.e. capitalized.

7. With the above directions, the petition is disposed of.

(C.S. Sharma) **Member (Economics)**	**(K.K. Garg)** **Member (Engineering)**	**(Rakesh Sahni)** **Chairman**